

IBA Review of the Fiscal Year 2017 Proposed Budget

Budget Review
Committee
May 4, 2016

Review of the Fiscal Year 2017 Proposed Budget

Analysis by the Office of the Independent Budget Analyst | Report 16-05



“The Mayor’s FY 2017 Proposed Budget is a solid proposal adhering to City financial policies and best practices, incorporating reasonable revenue assumptions, and focusing on a wide range of priority core services supported by the City Council.”

“Now the City Council will meet as the Budget Review Committee to discuss the proposal in full as they review each department’s budget and hear from the public.”

General Fund Expenditures Overview

- FY 2017 Proposed Budget: \$1.33 billion, increase of \$38.2 million or 3%
- FY 2017 Proposed Budget: 7517.44 FTEs, increase of 217.96 FTEs or 3%
- Notable expenditure changes include:
 - \$14.1 million increase in salaries largely due to \$11.1 million associated with position increases across departments
 - Addition of \$3.0 million in Police overtime
 - \$8.9 million increase in vacancy savings (a salary expense reduction)
 - \$21.3 million increase in fringe benefits

General Fund Expenditures Overview (cont'd)

- \$7.8 million increase for Transportation & Storm Water contracts including: storm drain channel cleaning and pipe repair, environmental permitting, catch basin cleaning
- \$9.4 million increase in Public Liability operations and Reserve funding, and \$7.6 million increase for General Fund Reserve
- \$7.3 million increase in Fleet “usage” and “assignment” charges
- Removal of FY 2016 one-time expenses including:
 - \$5.1 million for the Police Computer Aided Dispatch (CAD) system
 - \$5.0 million for the Bayside Fire Station
 - \$5.3 million for facilities work

General Fund Revenues Overview

- FY 2017 Proposed General Fund Budget: \$1.33 billion, increase of \$44.3 million or 3.5%
- Our Office agrees with the FY 2017 General Fund revenue projections based on FY 2016 revenue projections and current economic forecast
- Positive but moderate growth in major General Fund revenues that closely resemble the growth rates projected in the FY 2017-2021 Five-Year Outlook
 - Exception: **Sales Tax**, which has been reduced from previous projections to a growth rate of 3.5% for FY 2017 due to the on-going reduction in fuel prices

FY 2017 Proposed Budget: Strengths

- Highest General Fund Reserves in history
 - FY 2006 – General Fund Reserves funded at 3% of General Fund revenues
 - FY 2017 – General Fund Reserves target of 14.75%
 - FY 2021 – General Fund Reserves target of 16.7% per GFOA best practice and as recently adopted by the City Council
- Mayor's funding proposals closely mirror Council budget priorities and focus on core services
- Street paving funding gap remedied for FY 2017

FY 2017 Proposed Budget: Strengths (cont'd)

- Public safety overtime right-sizing
 - Additional overtime funding of \$3 million for Police
 - Personnel expenditures adjustments for Fire-Rescue
- Citywide parks system master plan will begin in FY 2017
- Continued focus on identifying deferred capital and operational needs

FY 2017 Proposed Budget: Weaknesses

- Unmet needs could require new, future resources:
 - Multi-year department plans for Police, Fire, and Lifeguards
 - Citygate report on Fire Standards of Coverage
 - Penny for the Arts Blueprint
 - Five-Year Capital Infrastructure Planning Outlook
 - Community Plan updates
 - Bicycle Master Plan
 - Storm Water Watershed Asset Management Plan
 - Vision Zero
 - Climate Action Plan
 - Library Ordinance

“These plans and assessments are identifying significant needs and funding requirements above and beyond what our existing resources will likely be able to support in the future.”

FY 2017 Proposed Budget: Weaknesses (cont'd)

- Persistent Police recruitment and retention challenges
 - Officers continue to leave at a rate of 13 departures per month in FY 2016, the same as in FY 2015
 - The Proposed Budget does not include any new initiatives or resources beyond what was negotiated in 2015

FY 2017 Proposed Budget: Weaknesses (cont'd)

- Reduction/change of performance measures
 - Many new measures are missing data from prior years (FY 2015 and FY 2016)
 - Some “old” measures are not included, reducing the ‘core’ of measures maintained over time
 - Library circulation per capita
 - Annual or weekly library and recreation center operating hours
 - Value of commercial and residential building permits
 - Number of aquatics users
 - Many Council-requested measures developed over past several years have been eliminated

Comparing Council and Mayoral Priorities

Proposed Budget includes funding for 17 of the 21 highest City Council budget priorities approved by Council on February 8, 2016:

- Positions to support the Police's Communications Division
- Support for the City's Police Officer recruitment and retention efforts
- Support for Lifeguard Division Five-Year Needs Assessment
- Park & Recreation capital improvements
- Funding to support pedestrian and cycling safety
- ADA Improvements
- Streetlight installation, maintenance, and repair
- Storm drain maintenance
- Sidewalk maintenance, repair, and installation
- Street maintenance and repair
- Funding for public safety facilities
- Support for the Connect2Careers Program
- Funding for various community and youth library programs
- Support for small businesses
- Climate Action Implementation Plan
- Funding and resources to assist San Diego's homeless population
- Increased funding support for parks and libraries

Comparing Council and Mayoral Funding Priorities (cont'd)

- No funding was included for the following Council Budget Priorities:
 - Converting the South University City FRS to a 24-hour temporary Fire Station
 - Restoration of swimming pool hours
 - Increased funding for Penny for the Arts Blueprint above the current 6.44% of TOT
 - Addition of personnel for Code Enforcement

Looking Ahead to FY 2018

- Impact on General Fund revenues due to a potentially softening economy
 - Economy shift from recovery to stabilization
 - Impacts from future adjustments to federal interest rates, increases in home prices, and changes to employment rates and consumer confidence levels

“Economic recovery and associated revenue growth, however, has begun to slow, as the economy shifts out of a phase of rapid recovery.”

Looking Ahead to FY 2018 (cont'd)

- Potential cost increases to the FY 2018 Pension ADC
 - If investment returns are less than the assumed 7.125%
 - With potential demographic assumption changes related to mortality – there could be a “meaningful cost increase (2% to 6%)” in liabilities
- Future investments in Police recruitment and retention may be necessary

Looking Ahead to FY 2018 (cont'd)

- Future costs of Customer Service System (311)
 - Multi-phase program over five years, \$1.1 million added for FY 2017
 - Projected total cost of \$3-4 million, depending on scope
- Future General Fund costs of I AM
 - Debt service payment estimated to be \$2.1 million in FY 2018

Excess Equity

- Mid-Year Report Excess Equity estimate: \$6.0 million – a potential resource for the FY 2017 budget
 - When labor contracts approved, funding above the estimate in the Proposed Budget could reduce Excess Equity
 - Unforeseen expenditure additions included in the May Revision may reduce Excess Equity
 - Some one-time Council priorities could be funded through Excess Equity, if available

Items Expected in the May Revision

At this time, our Office is aware of the following likely requests:

- Office of the City Attorney: 1.00 Program Manager and \$140,000 in associated expenditures to support the Community Justice Initiative
- Citizens' Review Board on Police Practices: support for outside counsel
- Kinder Morgan lawsuit: one-time funding was removed from the FY 2017 Proposed Budget although the lawsuit is ongoing
- Real Estate Assets Department: \$17,000 for DocuSign contract (electronic retrieval system)

Next Steps in the Process

- **May 4-5, 9-10:** Budget Review Committee
 - IBA review of the budget
 - Public hearings on City departments, functions, and agencies
- **May 16:** City Council holds evening hearing to receive further input from the public
- **May 19:** Budget Review Committee reviews the Mayor's May Revise for consideration in final budget decisions
- **May 27:** City Councilmembers issue final budget priority memoranda to the Office of the IBA

Next Steps in the Process (cont'd)

- **June 8:** Office of the IBA final report issued on recommended changes to the Proposed Budget based on input from Council memoranda and further review of outstanding issues
- **June 13:** City Council makes final FY 2017 budget decisions and takes action on any FY 2017 budget revisions
- **July 11:** City Council introduces and adopts the FY 2017 Appropriation Ordinance

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